Office of Mobile Sources



## **Environmental Fact Sheet**

# The Commuter Choice Program: A Way to Save Money and Help the Environment

Commuter Choice Programs encourage employers to offer flexible commute options to their employees. These strategies help employers and employees save money and help reduce pollution.

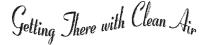
## What is the Commuter Choice Program?

Under Commuter Choice programs, employers offer commuting options that encourage employees to get to work in ways that pollute less than driving alone. A Commuter Choice program can be developed by an individual company or as part of a wider regional strategy. In addition, Federal tax laws relating to transit, vanpool, and parking benefits now provide tax savings for employers and employees who want to "Get There with Clean Air!"

## **Commute Options**

Commuter Choice programs encourage employers to provide their employees transportation options in commuting to and from work. These programs may include one, all, or a combination of the following individual benefits:

- Free or reduced cost passes for public transportation, such as subway cards, bus tokens, or train tickets.
- Transit or vanpool vouchers which can be used to pay for those services.





- Services to facilitate carpooling and vanpooling such as providing vans, ridematching, and a guaranteed ride home.
- Telecommuting options (so employees can work at home more often).
- Proximate Commuting: a program that matches employees of multisite employers (such as banks or chain stores) to the branch office nearest their home.
- Incentives to bike or walk
- Parking Cash Out: Employees can trade employer paid parking space for cash or other benefits.

## **Tax Savings**

Tax Savings from Commuter Choice vary depending on which commute benefits are offered by the employer and how they are provided to the employee. Below are three qualified methods:

#### 1. In Addition to Compensation/Additional Benefit

Employees may receive the benefit in addition to their current wages. Specifically, they can receive transit, vanpool, and parking benefits completely free of all U.S. payroll and Federal income taxes. The employer pays for the benefit and receives a deduction from his Federal business income taxes for the value of the benefit. The employer also does not pay payroll related taxes or costs on the benefit.

#### 2. In Lieu of Compensation/Pre-tax Benefit

An employer may permit employees to set aside some of their income, before taxes, to pay for their commutes. Employees may use this pre-tax income to pay for transit, vanpools, or parking. Employees would not pay Federal income taxes or payroll taxes on the amount they elect to set aside for the commute option, and employers would not pay U.S. payroll taxes or other payroll related costs since the amount is treated as a benefit rather than as taxable salary.

#### 3. Cost-Sharing

Employers may share the cost of commuting to and from work with their employees. They could do this through a combination of the two benefits above.

Under the new tax law, employers can offer the specified benefits for their employees' work commutes in addition to or in lieu of compensation, Federal-tax-free, up to these Federal limits:

- Up to \$175 per month for parking at or near work site and transit facilities
- Up to \$65 per month for public transit
- Up to \$65 per month for vanpool services

(For transit and vanpooling, this amount will increase to \$100/month for taxable years beginning after December 31, 2001.)

Note: Tax breaks on benefits only apply directly to transit, vanpool and parking benefits. The cash option from Parking Cash Out and any other monetary incentives are taxable for that employee. Subsidized parking and other transportation benefits do not become taxable if an employer offers them along with the Parking Cash Out option. Although the tax laws do not specifically relate to benefits like telecommuting, carpooling, biking, walking, and other commute options, employers may still offer them. One way to provide incentive for these other options is through Parking Cash Out, where employees can choose the cash benefit and commute by these alternative modes.

## Commuter Choice Benefits Everyone

#### **Employees:**

Reduced Commuting Costs and Reduced Congestion - As a result of participation in this program, employees have more choice in how to get to work and how it is paid for. The tax savings or additional benefits lessen the cost of commuting for the employee, no matter how the benefit is offered, making it a win-win situation for that employee. The opportunities provided depend on the employer and the available alternatives in an area. As more and more people exercise Commuter Choice, congestion on America's busy highways will decrease.

**Environmental Protection** - When commuters drive alone in large numbers, they can contribute significantly to smog and air pollution. By using carpools, vanpools, public transportation, or biking/walking they are helping to make the environment cleaner for all Americans. Like recycling, Commuter Choice programs can contribute to ensure a clean and safe environment for ourselves and our children.

**Parking Cash Out** - Parking Cash Out gives an employee the option to trade an employer-provided parking space for its cash value (up to \$175) or other benefits. If the cash is chosen, the employee can keep the money and carpool, telecommute, bike or walk. The money itself is taxable as income for that employee. Employees retain the option of keeping the tax-free parking space.

#### **Employers:**

Tax Savings - The Commuter Choice benefits that the employer pays for can be deducted from Federal business income taxes. In addition, no U.S. payroll taxes or other payroll related costs are required on the benefits either, whether the employer pays for them or offers them in lieu of compensation.

Enhanced Recruitment and Retention - With additional benefits, employers stand out in the competitive market for qualified employees. By offering a choice of commute option benefits, an employer can respond to the differing needs of these employees. Commuter Choice programs are attractive because they can help alleviate some of the problems associated with commuting.

**Parking and the Business** - Reducing employee demand for parking can free up parking spaces for customers, or the space can be converted for other revenue producing purposes. It also has the potential to remove the need for expensive new parking construction.

#### **States and Cities:**

State and local areas can apply emission reductions achieved through Commuter Choice programs toward meeting national air quality standards. Specifically, States and local areas can include Commuter Choice programs in State Implementation Plans (SIPs), which outline how air quality in the region will be improved.

## For More Information

This document and additional information on transportation and air quality are available electronically at the TRAQ Center on the EPA Internet server at:

http://www.epa.gov/oms/traq

For a hard copy of this document, call the National Service Center for Environmental Publications (NSCEP) at (800) 490-9198.

For more information, please contact:

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